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Danger Signals:

Is Your Company At Risk? Early Warning Signs Pinpoint Business Troubles.

By John M. Collard

Too often, companies die unnecessarily. Why? Because most managers haven't learned to recognize the symptoms of oncoming illness in their business. Management doesn't know how to manage in this situation. They haven't had to in the past, and are ill equipped when trouble sets in.

The obvious signs of business trouble are rarely its root causes. Losing money, for example, isn't the problem. Rather, losing money is the result of other problems.

When you wait too long to recognize deteriorating characteristics the company may seek bankruptcy protection . . . only creditors, attorneys and accountants benefit from this process. It's the astute manager that recognizes infallibility, and has foresight to ask for help . . . before serious trouble sets in.

Corporate directors, you share in the business risks of the companies you serve. You accept additional risk when the company is heading for trouble. By recognizing some early warning signs of business trouble on the horizon, you can eliminate, overcome, or, at the very least, side step those risks.

If you can answer 'yes' to some of these questions, it is time to take decisive action.

Is The Owner Or Top Management Over Extended?

Whose work are they doing? When they continue to perform functions that should be done by others (once the business has grown to a more complex level), they're over extended.

Managers need to delegate work appropriately. Define the owner's and key managers' jobs to clarify role responsibility. Assess subordinates' competence; retain them if appropriate — replace them if not. Monitor key metrics so you'll remain informed about conditions . . . without being immersed in them.

Is The Turnover Rate Excessive?

A sure sign of underlying problems is rapid employee turnover. Employees know when problems exist, the good ones will leave early. This condition can be the result of a faulty hiring process, inadequate training, poor management . . . the list goes on. The price for ignoring this problem is high: low morale, lost wages, recruiting costs, lack of productivity, and ultimately, forfeited business.

Uncover the real causes early on, and rectify them. Solutions include clearly defined job responsibilities, performance expectations, rewards, and scope of authority. Several levels of management attention should be devoted to new key employees (and those moving to new positions) during the initial days of their assignment.

Are Communications Ineffective?

Ineffective meetings, management information, or inter departmental coordination can destroy a business from the inside out — even as it is growing.

If all that is accomplished during 'Bull Sessions' is a lot of . . . well, "Bull" . . . then this is clearly the fault of the leader. It's a leader's duty to limit the scope of topics discussed and participants, to establish an agenda — with specific begin/adjourn times — and stick to it. Demonstrate organization by managing your meetings and your team will demonstrate that organization by managing your company.

Are Goals Unclear?

Chronic failure to achieve stated business goals suggests a problem far more serious than a lack of performance. Often, it implies a lack of clarity regarding the owner's goals, and usually indicates a failure to secure management team 'buy in'.

Take a long, hard look at the goal setting process. Set goals and hold managers accountable for success.

What is the company's goal? A typical mission statement might state "... we are the best at providing a lot to everybody ..." which doesn't say anything. Set a mission statement that tells customers, employees, and stakeholders where the company is headed. If it can't be articulated . . . does it really exist? A good mission statement should address several elements: What do we do or provide? Why will they buy? Who will we sell to? How will we deliver our products and services? How much will we do? Why will they buy from us?

Competition dictates that you focus. Don't underestimate the importance of your key competencies, those strengths that no one else has. Identify goals that are in sync with these strengths. Do they meet ultimate objectives? If not . . . then why use resources to accomplish them? Remember the ultimate goal . . . companies are in this for the money.

Are Compensation And Incentive Programs Yielding Poor Results?

While it seems obvious that programs should clearly and directly reward for successful job performance, it's remarkable that many companies unwittingly set up compensation structures that reward performance altogether different from that outlined in the job description. A word of warning if this is your practice: Be careful what you pay for — you might just get it.

By contrast, managers who are paid incentives based upon gross margin can be more effective than those paid on gross sales. Why? Because they share the burden of poor performance, they're more likely to take corrective action when faced with substandard performers. Pay incentives when performance is achieved, and don't pay for it if not achieved.

Is New Business Waning?

If so, you are out of touch with the marketplace. High prices, unresponsive proposals, and giving more than is required of you are the typical reason companies lose bids.

Commitment to winning new business is essential to success; so, identify targets early on — always keeping a close eye on the customer's special needs. Bid to win, and then manage for profit and growth.

Are Key Client Relationships Deteriorating?

Determine if a decrease in business from long time customers is due to poor market conditions in their industry — or poor service from your company. If it's you, you're probably no longer meeting the customer's needs. Worse — you may not know.

Manage customer relationships carefully. Customer needs, like your own, change. Assign specific responsibility for nurturing customer relationships to all levels of management —not just to those within the sales force.

Do You Create 'Products In Search Of Markets?'

Products developed before market needs are assessed can waste resources and be difficult to sell. It is less expensive to create awareness of a product or service that meets an existing demand, than it is to develop a new market for existing products or services that doesn't exist.

Identify how your key competencies satisfy customer need and produce benefits. Have your team pretend they are your competition; their task is to identify the strategy that you, the competitor, should pursue. Ask you customers . . . simple but effective.

Do Financial And Management Reports Cover The Wrong Information At The Wrong Level?

Financial and operational reports must be accurate, timely, and pertinent. Too often, management receives only traditional accounting measures of company value, instead of cash flow or new business generated. Also, information is often prepared at the wrong level, making it difficult or impossible for management to know what's going on inside their operations.

Cash flow is the best indicator of business health. Prepare forecasts, and then manage to them. Management should determine performance at each level of the business (i.e. profit center, cost center, cash center), and update often.

Do You Have A Track Record Of Failed Expansion Plans?

Setbacks drain businesses of cash, time, and morale. When companies fail in one effort, management tends to 'pull in its horns' the next time out. The result? Suppressed hopes for growth or expansion. Efforts fail because of inadequate cash, poor management, lack of thorough market analysis, or improper control systems.

Managers who run independent operations must be adept at problem solving, decision making, team building, and managerial analysis; skills which are not obvious. Understand why your company is successful in its present marketplace, and try to 'model' those conditions in a new marketplace.

Recognizing trouble requires no hocus-pocus. Likewise, solving trouble's accompanying problems takes no smoke and mirrors. Seldom is there only one reason for business troubles; more than likely, you'll discover two or three. Getting to the real issues is a catalyst toward change — and recovery.

And that's a much more acceptable risk.

About the Author

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